1999 Country Reports on Economic Policy and Trade Practices
Released by the Bureau of Economic and Business Affairs
U.S. Department of State, March 2000

TURKEY

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999	
Income, Production and Employment:				
Real GDP	190.4	198.7	78.0	1/
Real GDP Growth (pct)	7.5	2.8	-5.0	
GDP by Sector:				
Agriculture	27.6	34.4	6.6	
Manufacturing	41.1	39.0	16.6	
Services	91.0	93.5	52.1	
Government	17.1	18.4	10.6	
Per Capita GDP (US$)	3,105	3,224		
Labor Force (000s)	22,359	23,415	23,779	2/
Unemployment Rate (pct)	6.9	6.2	7.3	2/
Money and Prices (annual percent growth):				
Money Supply Growth (nominal M2)	96	106.2	105.3	3/
Consumer Price Inflation	99.1	69.7	64.6	4/
Exchange Rate (TL/US$ annual average)	151,239	259,815	517,750	4/
Balance of Payments and Trade (Suitcase Trade Included):				
Total Exports FOB	32.6	31.2	14.6	5/
Exports to U.S.	2.1	2.5	1.6	6/
Total Imports CIF	48.0	45.6	21.8	
Imports from U.S.	3.5	3.5	2.2	6/
Trade Balance	-15.4	-14.4	-7.2	
Balance with U.S.	-2.33	-1.84	-0.5	
External Public Debt	91.1	102.0	105	1/
Fiscal Deficit/GDP (pct)	-7.8	-7.4	12	
Current Account Balance/GDP (pct)	-1.37	0.94	-0.5	
Debt Service Payments/GDP (pct)	6.5	8.1	8.5	
Gold and Foreign Exchange Reserves 8/	27.2	31.6	35	3/
Aid from U.S.	0.31	.006	.02	

Aid from Other Sources	N/A	N/A	N/A

* Source: Turkish State Institute of Statistics, Turkish Treasury Undersecretariat, Central Bank of Turkey.

1/ Estimate as of November 1999— all GDP figures for previous years are as of June.
2/ 96, 97 and 98 figures are as of October; 99 figure is as of April.
3/ As of October 1999.
4/ As of November 8, 1999.
5/ As of July 1999— all 99 trade figures are as of July.
6/ As of August 99
7/ Includes reserves held by central bank and commercial banks.

1. General Policy Framework

From the establishment of the Republic in 1923 until 1981, Turkey was an insulated, state-directed economy. In 1981 the country embarked on a new course. The government abandoned protectionist policies and opened the economy to foreign trade and investment. The state slowly began to give up much of its role in directing the economy and to abolish many outdated restrictions on private business. These reforms unleashed the country's private sector and have brought impressive benefits. Since 1981, Turkey's average 5.2 percent real GNP growth rate has been the highest of any OECD country. Turkey's efforts reached a new stage in January 1996 in terms of market opening, with the inauguration of a customs union with the European Union. Turkey has harmonized nearly all of its trade and industrial policies with those of the EU and has begun to reap benefits from the customs union, particularly in terms of improved economic efficiency, which, in turn, has had a positive impact on overall U.S. exports to and investments in Turkey. The long-term consequences of the customs union should be very favorable, particularly in terms of trade creation and investment.

Despite the impressive reforms introduced since 1981, Turkey continues to suffer from an inefficient public sector and weak political leadership. These factors, combined with a high domestic debt interest burden and the private sector’s ingrained high inflation expectations, constrain higher growth rates. Consumer price index inflation has averaged about 78 percent since 1988, but dropped to 65 percent in 1999. In 1994, government attempts to manipulate interest rates triggered a financial crisis and forced the government to introduce a tough austerity program. The sharp 1994 recession was Turkey's worst since World War II. The economy bounced back strongly, however, growing by over 8 percent from 1995 through 1997. Strong export growth sparked a surge in imports of raw materials and intermediate and capital goods through mid-1998, as did the elimination of import duties and surcharges for most EU goods, which accompanied the introduction of the customs union on January 1, 1996.

After declining in 1994 and 1995, the budget deficit and public sector borrowing requirement both rose significantly from 1996 through 1999, reflecting continued populist economic measures introduced by successive Turkish governments. The Yilmaz government, in power from July 1997 to November 1998, undertook significant (if gradualist) disinflationary reforms and permitted the central bank to continue its disciplined monetary and exchange rate policies, thus increasing market confidence. The Ecevit government in place since June 1999, has passed important structural reforms in banking and social security and passed constitutional amendments granting foreign concession holders access to international arbitration and providing the legal underpinning for privatization of state-owned companies.

Turkey and the IMF concluded a Staff Monitored Program (SMP) in mid-1998. The government met or exceeded its year-end SMP targets, including achieving a 54.7 percent year-end WPI inflation rate, its lowest since 1991. Further progress in implementing structural reforms will lead to an IMF stand-by at the end of 1999. The government has set an ambitious year-end 2000 WPI inflation target of 20 percent as well as a $5 billion target for privatization revenues. The Asian and Russian financial crises did not seriously affect Turkey’s economy. Any slowdown in the EU or U.S. economies (which take a 65 percent share of Turkey’s exports) will restrict Turkey’s ability to attract foreign capital or to expand its exports at the desired rate.

Building on significant liberalization of the economy in the mid-1980s, Turkey’s private sector has become less dependent on the government. As a result, it has grown at an even faster pace than the overall economy, while it also expanded its share of Turkey’s GDP. Turkey’s most successful companies are foreign oriented and very competitive. Since 1992, total bilateral trade volumes have expanded by 45 percent, totaling $6.2 billion at the end of 1998. U.S. exports have grown by over 36 percent, while Turkish exports have more than doubled in value. The U.S. retains a substantial trade surplus with Turkey. Investment levels remain flat, though significant opportunities remain in the energy and telecommunications sectors for further investments, should the government pass implementing legislation for access to international arbitration and for energy and telecom sector regulation.

2. Exchange Rate Policy

The Turkish Lira (TL) is fully convertible and the central bank follows a crawling peg exchange rate policy aimed at the WPI target of 20 percent by the end of 2000. The system was adopted on January 1, 2000, with a pre-announced rate of crawl over the course of the year. The central bank has also committed to various monetary targets to support this new exchange rate mechanism.

Overvaluation of the TL from 1989-93 was a significant factor in the 1994 financial crisis. As a result, the TL depreciated against the dollar in real terms in 1994. Since then, the central bank has maintained a stable real exchange rate measured against a trade-weighted dollar/Euro basket.

3. Structural Policies

Turkey has made substantial progress in implementing certain structural reforms and liberalizing its trade, investment, and foreign exchange regimes. The resulting rapid economic growth and high rate of private business creation during the 1980s and 1990s has generated tremendous demand for imported goods, particularly capital and intermediate goods and raw materials, which together account for over 85 percent of total imports.

Successive governments' failure to complete the structural reform measures needed to transform Turkey's economy into a liberal, market-directed economy has limited private sector growth and prevented the economy from functioning at full efficiency. State-owned enterprises still account for some 35 percent of manufacturing value added. Although some of these firms are profitable, transfers to state firms constitute a substantial drain on the budget. Government control of key retail prices (especially in the energy and utilities sectors) also contributes to market distortion, as prices are sometimes manipulated to meet political objectives (held in check before elections, accelerating after). The government actively supports the agricultural sector through both subsidized inputs and crop support payments of up to twice world price levels.

Turkey and the European Union entered into a customs union on January 1, 1996. Nearly all industrial goods from EU and EFTA countries now enter Turkey duty-free. Turkey has adopted the EU's common external tariff for third countries, which has resulted in significantly lower tariffs for U.S. products. The government also has abolished various import surcharges. As part of the customs union agreement, Turkey has revised its trade, competition, and incentive policies to meet EU standards. While these EU-related reforms in general help U.S. exporters, agricultural goods continue to face prohibitive tariffs.

4. Debt Management Policies

As of June 1999, Turkey's gross outstanding external debt was $100 billion, 76.5 percent of which is government debt. Debt service payments in 1999 will amount to an estimated 8.5 percent of GNP (and 36 percent of current account receipts). Turkey has had no difficulty servicing its foreign debt in recent years.

In 1999 Turkey has issued almost $4 billion in sovereign debt, above its $3 billion official target. At the same time, Turkey's domestic debt stock has increased significantly owing to continuing high real interest rates.

5. Aid

In 1998, the United States ended its Economic Support Fund and Foreign Military Financing (market-rate loans) support for Turkey. In 1999, the United States provided Turkey $2 million in assistance under a USAID-funded family planning program, $1.4 million in International Military Education and Training funding, and $500,000 in counter-narcotics assistance. Turkey receives significant grant and loan aid from the European Union, but much of this is on hold as the result of political disputes with Greece.

6. Significant Barriers to U.S. Exports

The introduction of Turkey's customs union with the EU in 1996 resulted in reduced import duties for U.S. industrial exports. The weighted rate of protection for non-EU/EFTA industrial products dropped from 11 percent to 6 percent.   By comparison, the rate of protection for industrial exports from EU and EFTA countries in 1995 had been 6 percent; nearly all these goods now enter Turkey duty-free. There have been few complaints from U.S. exporters that the realignment of duty rates under the customs union has disrupted their trade with Turkey. A significant number of U.S. companies have reported that the customs union has benefited them by reducing tariffs on goods they already exported to Turkey from European subsidiaries. The customs union does not cover agricultural trade or services e.g. 200,000 tons of wheat and 19,000 tons of rice are allowed duty free entry from the EU. U.S. exporters have voiced increasing frustration over barriers to agricultural trade, most notably a ban on the import of livestock. However, the import ban on livestock and meat was partially lifted for breeder cattle in 1999, although none had been imported by late 1999.

Import Licenses: While import licenses generally are not required for industrial products, products which need after-sales service (e.g. photocopiers, ADP equipment, diesel generators) and agricultural commodities require licenses. In addition, the government requires laboratory tests and certification that quality standards are met for importation of human and veterinary drugs and foodstuffs. While licenses are generally issued in one to two weeks, occasional delays can cause problems for U.S. exporters.

Government Procurement Practices: Turkey is not a signatory of the WTO Government Procurement Agreement. It nominally follows competitive bidding procedures for tenders. U.S. companies sometimes become frustrated over lengthy and often complicated bidding and negotiating processes. Some tenders, especially large projects involving co-production, are frequently opened, closed, revised, and opened again. There are often numerous requests for "best offers;" in some cases, years have passed without the selection of a contractor.

The entry into force of a Bilateral Tax Treaty between the U.S. and Turkey in 1998 eliminated the application of a 15 percent withholding tax on U.S. bidders for Turkish government contracts.

Investment Barriers: The U.S.-Turkish Bilateral Investment Treaty (BIT) entered into force in May 1990. Turkey has an open investment regime. There is a screening process for foreign investments, which the government applies on an MFN basis; once approved, firms with foreign capital are treated as local companies. Although Turkey has a BIT with the United States, and despite its membership in international dispute settlement bodies, Turkish courts have not recognized investors’ rights to third party arbitration under any contract defined as a concession. This has been particularly problematic in the energy, telecommunications and transportation sectors. Passage of constitutional amendments granting access to international arbitration to foreign investors should correct this problem; however, the implementing legislation needed to enforce these new amendments must still be enacted.

7. Export Subsidies Policies

Turkey employs a number of incentives to promote exports, although programs have been scaled back in recent years to comply with EU directives and GATT/WTO standards. Barley, wheat, tobacco and sugar exports are subsidized heavily. The Turkish Eximbank provides exporters with credits, guarantees, and insurance programs. Certain tax credits also are available to exporters.

8. Protection of U.S. Intellectual Property

In 1995, as part of Turkey's harmonization with the EU in advance of a customs union, the Turkish Parliament approved new patent, trademark and copyright laws. Turkey also acceded to a number of multilateral intellectual property rights (IPR) conventions. Although the new laws provide an improved legal framework for protecting IPR, they require further amendments to be consistent with the standards contained in the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). The government has declared that intends to have a TRIPS-compatible IPR regime in place by the end of the year and has volunteered for a WTO TRIPS review in the second half of 2000. Draft amendments to the Copyright Law awaited parliamentary approval at the end of 1999.

Turkey has been on the Special 301 Priority Watch List since 1992. In the 1997 Special 301 review, USTR provided Turkey with a set of benchmarks necessary in order to improve its status in the 301 process. In April 1998, the U.S. announced that it would not consider requests to augment Turkey's benefits under the U.S. generalized system of preferences until further progress is made on the benchmarks. Out of the six benchmarks, Turkey has made significant progress on four and is in the process of addressing the problems identified in the fifth and sixth benchmarks.

Taxes on the showing of foreign and domestic films were equalized in 1998. The Prime Minister issued a circular in 1998 directing all government agencies to legalize the software used in their offices. A public anti-piracy campaign was begun in 1998 and the government has made efforts to educate businesses, consumers, judges and prosecutors regarding the implications of its laws.   Turkey extended patent protection to pharmaceutical products in January 1999 in accordance with Turkey's Customs Union commitments to the EU. Turkey currently is in the process of amending its copyright legislation.   In August 1999, fines were increased by 800 percent and indexed to inflation. Turkish police and prosecutors are working closely with trademark, patent and copyright holders to conduct raids against pirates within Turkey. Although many seizures have been made (including by Turkish Customs officials at ports of entry), and several cases have been brought to conclusion successfully, U.S. industry remains concerned that fines and penalties levied by the courts are insufficient to serve as a significant deterrent.

9. Worker Rights

a. The Right of Association: All workers except police and military personnel have the right to associate freely and to form representative unions. Most workers also have the right to strike, but the constitution does not permit strikes among workers employed in the public utilities, petroleum, sanitation, education and national defense sectors, or by workers responsible for protection of life and property. Turkish law requires collective bargaining before a strike. Solidarity, wildcat, and general strikes are illegal. The law on free trade zones forbids strikes for 10 years following the establishment of a free trade zone, although union organizing and collective bargaining are permitted. The high arbitration board settles disputes in all areas where strikes are forbidden.

b. The Right to Organize and Bargain Collectively: Apart from the categories of public employees noted above, Turkish workers have the right to organize and bargain collectively. The law requires that in order to become a bargaining agent, a union must represent not only "50 percent plus one" of the employees at a given work site, but also 10 percent of all workers in that particular branch of industry nationwide. After the Ministry of Labor certifies the union as the bargaining agent, the employer must enter good faith negotiations with it.

c. Prohibition of Forced or Compulsory Labor: The constitution prohibits forced or compulsory labor, and it is not practiced.

d. Minimum Age for Employment of Children: The constitution and labor laws forbid employment of children younger than age 15, with the exception that those 13 and 14 years of age may engage in light, part-time work if enrolled in school or vocational training. The constitution also prohibits children from engaging in physically demanding jobs such as underground mining and from working at night. The Ministry of Labor enforces these laws effectively only in the organized industrial sector.

In practice, many children work because families need the supplementary income. An informal system provides work for young boys at low wages, for example, in auto repair shops. Girls are rarely seen working in public, but many are kept out of school to work in handicrafts, especially in rural areas. The bulk of child labor occurs in rural areas and is often associated with traditional family economic activity, such as farming or animal husbandry. It is common for entire families to work together to bring in the crop during the harvest. The government has recognized the growing problem of child labor and has been working with the ILO to discover its dimension and to determine solutions. With the passage in 1997 of the eight-year compulsory education program the number of child workers was reduced significantly. Children enter school at age 6 or 7 and are required to attend until age 14 or 15.

e. Acceptable Conditions of Work: The Ministry of Labor is legally obliged, through a tripartite government-union-industry board, to adjust the minimum wage at least every two years and does so regularly. Labor law provides for a nominal 45 hour work week and limits the overtime that an employer may request. Most workers in Turkey receive nonwage benefits such as transportation and meal allowances, and some also receive housing or subsidized vacations. In recent years, fringe benefits have accounted for as much as two-thirds of total remuneration in the industrial sector. Occupational safety and health regulations and procedures are mandated by law, but limited resources and lack of safety awareness often result in inadequate enforcement.

f. Rights in Sectors with U.S. Investment: Conditions do not differ in sectors with U.S. investment.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		97
Total Manufacturing		604
Food & Kindred Products	208	
Chemicals & Allied Products	53	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	-9	
Transportation Equipment	99	
Other Manufacturing	(1)	
Wholesale Trade		(1)
Banking		224
Finance/Insurance/Real Estate		15
Services		46
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,069

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.